ACCOUNTING AND AUDITING GUIDELINES FOR ONTARIO CONDOMINIUM CORPORATIONS

Prepared by:
The Task Force on Accounting
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Preface

This guideline booklet will be of interest to directors, property managers and auditors of condominium corporations. It suggests accounting principles and reporting practices to be applied to Ontario condominium corporations.

This booklet updates earlier *Guidelines* issued by the Institute in April 1982 and recognizes the introduction of accounting standards for not-for-profit organizations into the Canadian Institute of Chartered Accountants Handbook and the requirements of Ontario's new Condominium Act,1998 proclaimed on May 5, 2001.

The adoption of the suggested financial statement formats will help bring uniformity to financial reporting for Ontario condominium corporations. This publication is not an official pronouncement of the Institute; it presents the collective views of the members of the task force on the preferred financial presentation for condominium corporations. Readers of these guidelines are cautioned that it is based on standards and legislation as of November 2001. Subsequent changes to legislation and/or accounting and auditing standards may affect the validity or applicability of comments in this publication.

I wish to thank Bob Babensee of BDO Dunwoody LLP, the Chair of the initial 1982 Study Group on Accounting and Auditing for Condominium Corporations, for his guidance and support in the development of this update to that original April 1982 publication.

Finally, I wish to acknowledge and thank Grant Dickson of the Institute for his unwavering support and assistance to the task force.

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Chapter I

INTRODUCTION

Brief history of condominiums

The condominium concept is not new, and evidence for arrangements similar to those of condominiums is reported by scholars to have been detected in early civilizations. For example the Romans, from whose language the word condominium was derived, used this form of lifestyle. Condominium living appeared in medieval Europe, later found its way into South American cities and in the last century gained strong support both in Europe and North America.

Historically, condominiums appear to have gained popularity when the cost of urban land has risen disproportionately to the cost of building construction, generally through increases in population density resulting from intensive social development.

Purpose of the condominium corporation

Under Canadian law, in the latter half of the 20th century, condominiums have come into existence as corporations created through legally registered declarations by land developers, pursuant to enabling provincial statutes. For this study, unless otherwise indicated, statutory references are to the Condominium Act, 1998 (Ontario) - "the Act".

The concept is one of individual ownership of self-contained occupancy units within an indivisible whole property. Because of its complexity, this requires careful legislative definition and regulation. The owners of the stated number of occupancy units in the property are tenants in common of the remainder of the property, referred to as the "common elements", in which they have an undivided interest. The registered declaration of each condominium plan contains a legal description including land survey of the units, defining the boundaries between the unit owner's property and the corporation's common elements. Administration is the collective responsibility of the owners, who are all the members of the condominium corporation.

For some time now corporate legislation has existed in Canada, as elsewhere, for both commercial and non-commercial (called not-for-profit) organizations. The type of organizational control for condominiums originally legislated by government followed in some respects the legislative precedents for the various forms of corporations. Condominiums were given definition as corporations as first created under the Condominium Act in Ontario in 1967.

The Ontario Statute, basically intended to allow for a form of land registration, was less than 15 full pages in length. It contained minimal requirements as to how a corporation should be operated. Various amendments, as considered necessary, were made in 1970, 1972, 1973 and 1974, but the first mention of financial statements and auditors did not appear until the 1978 Act, which was proclaimed in 1979. The need for modernization led to the major reform of the old legislation and the introduction of the new Condominium Act,1998 which was proclaimed on May 5, 2001.

The condominium is a self-governing community which requires rules and regulations for internal purposes as well as to define its external relationships to municipal, provincial and the federal levels of governments. It has many of the attributes of a city state: its declaration is the constitution; its bylaws and rules are the statutes; and its budget and assessments are the tax system. Often there are shared facilities, recreational amenities, convenience stores, clubs, meeting halls and, for policing, security guards. There can be miles of private roadways with privately maintained fire hydrants and firehose systems. Humanity being always less than perfect, there is occasional vandalism, encroachment on the rights of neighbors and a number of other problems which need resolution. All these facets require coordination and supervision, and this self-governing is performed by the corporation's board of directors as provided by statute.

Role of board of directors and management

The directors, installed through election by a majority vote of the unit owners, or appointed by the remaining directors to fill a vacancy on the board, are fully responsible for the operation of the condominium property. The Act further regulates the performance of their duties by requiring a quorum (a simple majority), requiring the declaration of any personal interest in contracts, setting out necessary qualifications, and providing requisites for the calling of meetings.

The board has statutory power to govern the operation of the corporation by creating bylaws (subject to ratification by the owners), and is required to oversee the adherence by the condominium corporation to the legislated rules governing the use of common elements.

The day to day conduct of the affairs of a condominium is generally delegated to officers elected by the directors from their number. These senior officers usually include at least a president, a secretary to keep minutes of meetings, and a treasurer. The board often appoints an outside management corporation or hires management staff and employees. The professional managers exercise some of the functions of the board of directors, generally being responsible for the collection of assessments, staff supervision, payment of expenses, inside and outside maintenance and repair, assisting owners in resolving problems relating to the affairs of the condominium, and accounting for financial transactions. The managers operate under the authority of the board and are responsible to it, but do not relieve board members of their responsibilities.

Responsible ownership

The owners are given the right to elect directors to manage the affairs of the corporation and to appoint one or more persons qualified to be auditors.

An annual general meeting of the owners is to be held not more than three months after the declaration forming the corporation and subsequently within six months of the corporation's fiscal year-end. At such meeting any owner has the opportunity to raise any matter relevant to the affairs and business of the corporation. If at least 15% of the owners deposit a requisition in writing, a meeting of owners must be held within 60 days.

While the board of directors may make rules respecting the common elements and units, the owners may amend or repeal a rule, and bylaws passed by the board are not effective until confirmed by the owners. The owners are entitled to investigate the records of the corporation relating to the receipt and disposition of funds.

The Act makes the owners responsible for maintaining the common elements; for complying with the Act, declaration, bylaws and rules; and for contributing towards the common expenses in the proportions specified in the declaration.

Statutory duties of the auditor

The rights and responsibilities of the auditor are set out in Sections 60 to 71 of the Act and are discussed in more detail in Chapter III. Simply put, the auditor is required to report to the owners whether, in his or her opinion, the financial statements presented by the board of directors at any annual meeting during his or her term of office have been prepared fairly in accordance with generally accepted accounting principles.

Accounting records and financial structure

The property itself (land, building(s), and equipment), is paid for collectively by the owners at the time of purchase of their units; it is not an asset of the corporation. Included in these “common elements” are such things as the plumbing, electrical and mechanical systems within and outside the building(s). The corporation has a duty to maintain and repair the building(s), roof, garage, elevators, landscaping, outside drainage and the many other “common elements” which it does not own, including any assets it may acquire on behalf of the owners.

As outlined in subsection 97(7) of the Act, the cost of any addition, alteration, improvement or change to the common elements and the cost of any change in the assets of the corporation are common expenses.

The financial records of a condominium are therefore mainly required to accumulate the operating costs and to ensure a proper proportionate contribution by the owners pursuant to assessments duly approved by the directors at properly constituted meetings. It is also necessary to account for the transactions related to incidental services such as laundry rooms, parking and meetings rooms.

Scope of this guideline

The Act now provides for the creation of four types of condominium corporations. This guideline deals only with the most common type, the standard condominium corporation. The Act also contains specific sections dealing with the transfer of control by the declarant which are not covered in this guideline.

While this booklet provides guidance as to best practices as of November 2001, readers should note that accounting and auditing standards continue to evolve. Accordingly, readers are encouraged to avail themselves of other publications that are updated on a periodic basis. For example, the CICA *Professional Engagement Manual* is a valuable resource for auditors of Ontario condominium corporations. Other reference publications include:

- *Condominiums in Ontario – A Practical Analysis of the New Legislation* by Harry Herskowitz and Mark F. Freedman, published by the Law Society of Upper Canada Department of Education;
- *Condominium Handbook (Ontario) for Directors, Managers, and Purchasers* (Fifth Edition) by Gerry Hyman Q.C., LL.M, F.C.C.I. - published by the Canadian Condominium Institute;
- *The Condominium Act: A User’s Manual* by Audrey Loeb, LL.M – published by Carswell A Thomson Company
- *The Condominium Act, 1998 A Practical Guide* by J. Robert Gardiner, LL.B, A.C.C.I., F.C.C.I. – published by Canada Law Book Inc

Chapter II

ACCOUNTING CONSIDERATIONS

Users of financial statements and budgets

The owners may be considered the principal users of financial statements of condominium corporations; it is their funds by way of periodic maintenance assessments which finance the operation of the condominium. Owners often raise questions regarding disposition of these funds, and it is important for them to be provided with uniform and clear financial information for them to best understand the fiscal performance of their corporations. The financial statements are a record of the stewardship of the directors. Part of the evaluation by owners of the performance of their directors is based on what the financial statements disclose as to the directors' conduct of the corporation's financial affairs.

Financial statement information is needed not only by owners, but also by potential purchasers evaluating the quality of their contemplated investment. Some degree of uniformity in and comparability of the financial statements of condominium corporations is therefore necessary.

Owners are equally concerned with the budget and the information it provides because it reflects the actual amounts to be assessed and paid by the owners, and sets out the proposed basis of operations for the ensuing fiscal period; the financial statements themselves reflect the actual performance which may be evaluated against the budget. That is why, in this study, it is recommended that audited year-end financial statements include, for a comparison, the budgeted figures for the year being reported upon.

The owners include a wide spectrum of the population, and many of them are not familiar with financial statements and accounting terminology. The presentation and wording used must take this into account as much as possible to enable owners properly to interpret the financial implication of their investment.

Other users of the financial statements are managers (whether external management corporations hired by the directors as agents, or employees), who may also be involved in statement preparation. External third parties also use financial statements, and may include trade creditors, mortgagees, commercial lending institutions, or government lending agencies. These latter users with be more familiar with the financial statement presentation of business corporations, and would expect uniformity and clarity of presentation.

The filing by condominium corporations of annual corporation tax and information returns with accompanying financial statements may have some influence on accounting policy and financial statement presentation for condominium corporations.

The task force concluded that the general purpose financial statements and accompanying auditor's report ordinarily provided to owners of units in condominium corporations at their annual general meetings should comply with the Act and be prepared, so far as is possible, with uniformity, clarity and simplicity, using full, appropriate disclosure.

Basis of accounting

Condominium corporations are not-for-profit organizations and consequently must follow the accounting recommendations contained in CICA Handbook section 4400. The CICA emerging issues committee issued EIC-95 Accounting for Capital Assets of a Condominium Corporation to provide additional guidance in this area.

Reserve fund for major repairs and replacements

Purpose of the reserve fund

The purpose of the reserve fund is to set aside restricted monies on an annual basis in order to provide sufficient funds for the major repair and replacement of the common elements on a long-term basis. The reserve fund portion of the annual assessment may be thought of as the wear and tear cost of usage and ownership. Without such a fund, the corporation would have to seek financing for the needed repairs and replacements, or raise the required money through large increases in assessments or by a special levy.

By way of an example, if the expected life of a roof is 20 years, funds should be set aside annually so that by year 20 there are adequate funds to cover the cost of the roof replacement. The current owners at the time the roof is replaced will not bear the entire cost as the reserve fund provides a mechanism to share the cost among all owners from year 1 to year 20.

Statutory requirement

The Act states in subsection 93(1) “The corporation shall establish and maintain one or more reserve funds." and in subsection 93(4) that "The corporation shall collect contributions to the reserve fund from the owners, as part of their contributions to the common expenses." The amounts of the contributions, after the first reserve fund study "…shall be the amount that is reasonably expected to provide sufficient funds for the major repair and replacement of common elements and assets of the corporation, calculated on the basis of the expected repair and replacement costs and the life expectancy of the common elements and assets of the corporation”. (subsection 93(6)).

Subsection 95(1) of the Act specifies that the reserve fund can only be used for the purpose for which it was established. Therefore minor repairs, annually recurring items, preventive maintenance, and improvements or additions to the common elements should not be charged to the reserve fund.

Reserve fund study

A condominium corporation is required to conduct a reserve fund study every three years . The requirement to conduct the study is contained in section 94, with further details prescribed in the regulations to the Act (Ontario Regulations 48/01, Part IV, Sections 27-33) concerning the types, contents and frequency of studies as well as the qualifications and independence of the preparer of the study.

Items to be included and method of calculation

All existing common elements should be considered in the reserve fund calculation. The common elements are defined by the Act as “all the property except the units”. Additions to, or alterations of, common elements should not be funded by the reserve. However, as new common elements are added, provision for their repair and replacement should be included in the reserve fund calculation.

The cost of the reserve fund study, is a common expense, however, the Board may charge this through the reserve fund.

Ongoing maintenance contracts, minor repairs, annually recurring items and preventive maintenance, should not form part of the reserve fund calculation. These items should be included in the general operating budget for the period in which they are expected to occur.

By way of an example, certain paving costs would be categorized as follows:

(a) annual patching/paving repairs to parking areas would be considered a general operating expenditure;

(b) re-paving of significant parking areas would be considered a major repair and replacement expenditure;

(c) the removal of landscaped areas and the creation of new parking areas in their place would be considered an addition or alteration to the common elements.

The corporation should clearly define the common elements to be included in the reserve fund calculation and define the nature of expenditures, which constitute major repairs and replacements. The corporation should ensure that these definitions are followed consistently.

In order to determine the relevant common element components, the condominium corporation's declaration must be reviewed. Each corporation's declaration specifically defines the unit boundaries and therefore the corporation's common elements.

Each condominium corporation's declarations may also impose upon each unit owner the responsibility for the repair and replacement of certain specific common elements. These may include door and window repair and replacements. Such items, if so defined, should not be calculated as part of the reserve fund expenditures.

The relevant common element components would most commonly include:

1. Land, landscaping, walkways and roadways

2. Foundations, walls, roofs, stairways, hallways, and other parts of the structure

3. Mechanical, plumbing and electrical equipment

4. Recreational and other facilities

Accurate calculation of a reserve fund provision requires the involvement of persons with a high degree of knowledge with respect to repair and replacement costs and life expectancies of the common element components. The regulations to the Act specify the qualifications of persons who may conduct a reserve fund study, and the methods of conducting studies.

Plan for future funding

The Board is responsible for developing and implementing a plan for the future funding of the reserve fund that will ensure that the fund will be adequate. This plan is to be based on the reserve fund study. Regulations to the Condominium Act require the Board to disclose in the corporation's annual financial statements a comparison between the actual reserve fund contributions and expenditures with the Board's planned reserve fund contributions and expenditures.

Investment of reserve funds

Subsection 115(1) of the Act specifies that a corporation maintain one or more reserve fund accounts at a bank or a similar specified institution. The board may invest the reserve funds in "eligible securities" defined in subsection 115(5), being bonds, debentures, term deposits or similar instruments. The board must develop an investment plan, taking into account the anticipated reserve fund cash requirements according to the reserve fund study. The interest earned on reserve fund investments is part of the reserve account.

Budgets

Significance of budgets

Budgets provide the basis for establishing the annual assessment of a condominium. They compel planning and are a reflection of the level of service that the owners may expect. They promote communication and co-ordination between all members of a condominium, both at the board level and for the membership. Budgets are the responsibility of the Board of directors and represent an approved plan of action. The approved budget represents an expectation of financial resource allocation, provides a means for the members to evaluate stewardship, and is a useful tool for management in evaluating performance on a month-to-month basis.

Components of the budget

Following are some of the components of the budget which together establish the monthly assessment for a corporation. Usually there is a general operating budget portion and a major repairs and replacement budget portion, and, if additions to the common elements are anticipated, a third component – the capital expenditure budget.

(a) General Operations

This part relates to the estimated expenditures required for recurring items that are made from month to month and year to year. Its purpose is to ensure that the monthly assessment will provide sufficient funds for the continuing operation of the corporation. Preparation for this major portion of the corporation's financial resource allocation is usually the responsibility of management. Routine maintenance of major assets, as well as minor common element additions are included in this category.

(b) Major Repairs and Replacements

The replacement component is to provide for items that require repairs or replacement on a basis other than through the general operating budget. It is meant to ensure that the corporation will set aside sufficient restricted monies each year to provide for the replacement and/or repair of all common elements and assets as required. It is often prepared in consultation with outside experts, having regard to the remaining life as well as the replacement cost of the various assets. The Act dictates minimum amounts to be contributed.

(c) Additions to the Common Elements

This represents a specific provision for the acquisition, in a future period, of major items not already owned by the corporation. The items would generally fall into the area of capital improvements or major additions, which could not be charged to the major repairs and replacements budget.

Form of Budget

The budget should be prepared on an accrual basis, but quite often it will differ from traditional financial statements which detail expenditures by function. The budget may show expenditure details in terms of contracts, necessities, and other committed amounts.

It is clearly desirable that budgets, where practicable, should be prepared on a consistent basis and in a format comparable to the financial statements, or at least in a format easily reconcilable to the financial statements, in order that directors and members may correlate past performance with future requirements.

Budgeted figures should be included with the annual financial statements whenever a comparison is practicable. If the budgeted figures are included, they should be clearly referenced, as unaudited and their source should be indicated.

Net Assets

The owners of the units of a condominium corporation share ownership of the net assets of the corporation in the same proportions as their common interests. The book value of the recorded assets, less liabilities, is represented in the accounts by the accumulated sum of the general operating surplus, the capital fund and the reserve fund balances. The Act specifies that a general operating surplus in a corporation must be either applied to future common expenses or paid into the reserve for major repairs and replacements, but shall not, as long as the corporation is a going concern, be distributed to the owners.

Since the owners of the condominium corporation have an undivided interest in the net assets of the corporation, and the distribution of such assets to the owners is specifically prohibited by the Act, describing such operating surpluses, deficits and reserves in the financial statements by terminology such as “owners’ equity” or “members’ surplus” should be avoided.

Notes to financial statements

Notes to condominium corporation financial statements, as for any financial statements, are useful for the purpose of providing or expanding upon disclosure of matters critical to obtaining an accurate financial assessment of the state of the corporation and the results of its operations.

The task force suggests that at least the following information be disclosed by way of notes to financial statements of a condominium corporation, as an addition to other relevant disclosures:

(i) a description of the basic functions of the corporation and an outline containing the name method of creation, date of registration and total number of dwelling units.

(ii) a description of the significant accounting policies which have been adopted by the corporation.

(iii) the reserve fund information prescribed in Regulation 16 (3) of the Act being actual reserve fund contributions and expenditures compared to the planned amounts according to the board's plan for funding the reserve fund under subsection 94(8) of the Act.

(iv) all restrictions on the use and distribution of unexpended funds and reserves.

(v) details of long-term debt in accordance with Section 3210 of the CICA Handbook.

(vi) a description of the significant terms of all major (typically multi-year) contractual obligations which have been entered into by the corporation, including any commitments which will result in future charges to a reserve account (see CICA Handbook Section 3280).

(vii) a description of all significant related party transactions involving such parties as directors, owners, and property managers (see CICA Handbook 4460 and Regulation 16 (4)and (5)).

(viii) amount of remuneration paid to the directors and officers as required by section 66(2)(f) of the Act.

All notes, and the financial statements, themselves, should be made as understandable as possible so that they will convey useful information clearly to the owners.

Income tax considerations

Income generated by the investment of reserve funds had until recently, been regarded as non-taxable. The position of Revenue Canada (now CCRA) on this matter was clearly outlined in Information Circular 79-7, which was first issued in 1979. Revenue Canada subsequently reconsidered its position on this matter and announced its intention to withdraw Information Circular 79-7 and requested submissions from the Canadian Condominium Institute. The Canadian Condominium Institute, in association with the Association of Condominium Managers of Ontario retained legal counsel to address this issue. Based on arguments presented, the details of which will not be dealt with in this guide, a ruling was requested that condominium corporations are non-profit organizations as defined in paragraph 149(1)(l) of the Income Tax Act and, as such, are not liable for income taxes.

The outcome of the proceedings resulted in Revenue Canada cancelling Information Circular 79-7 effective February 28, 1995. In a revised technical bulletin, it further stated that, subject to unique factual circumstances, residential condominium corporations would be considered non-profit corporations for the purposes of paragraph 149(1)(l) of the Income Tax Act. Accordingly, all investment income earned on a reserve fund would not be subject to taxation unless the funds invested were held at unreasonably high levels. It further advised that where there is minor commercial ownership within a small portion of the condominium property, the same principles would apply as if the entire project were residential. Revenue Canada has thus far been silent however on the subject of commercial condominium corporations. It is the view of many professionals in this field that if the sole purpose of the commercial condominium corporation is to deal with the common expenses of the group and is not accumulating large surpluses beyond those funds appropriate to enable it to carry out its functions, it too will probably be characterized as a non-profit organization for this purpose.

A new filing requirement emerged in 1994. It would appear that Revenue Canada now wished to monitor a condominium corporation's status and accordingly advised of its intention to have condominium corporations file Form T1044.

The requirements to file the Form T1044 are dealt with in a Revenue Canada publication (Income Tax Guide to the Non-Profit Organization Information Return - T4117). Members are advised to remain current in their knowledge of the filing requirements; although no income tax is payable, late-filed returns can incur penalties.

Generally, returns must be filed if:

- the corporation earned or received dividends, interest, rentals, or royalties of more than $10,000,
- the corporation's assets were more than $200,000 at the end of the preceding year,
- a Form T1044 was filed previously at any time.

Goods and services tax (GST)

Common element assessments as applicable to the occupancy of a residential unit are considered an exempt supply under excise tax regulations. For revenues earned by a condominium corporation of a commercial nature, the directors of the condominium corporation should consider whether or not the corporation should register for GST purposes and be mindful of the threshold amount at which GST would be chargeable. Such activities that may be considered a taxable supply might include the provision of status certificates, or the rental of commercial space or advertising or charges to customers with respect to advertising, parking or transmission facilities.

For commercial condominium corporations the decision as to whether to register for GST purposes or not, is usually made based on the threshold amount being met. The liability for the collection and remittance of GST is then no different from other commercial enterprises. Accordingly, the payment of GST on purchased goods and services would enable the corporation to claim back the GST paid as an input tax credit. For the individual condominium unit owner, the requirement to pay the common element assessments plus GST would not, under normal conditions, be a concern because most unit owners are conducting business and would claim back the GST as an input credit in their respective filings.

Chapter III

GENERAL AUDIT CONSIDERATIONS

Statutory and other requirements

The Act sets out the various duties and rights of the auditor of a condominium corporation in Sections 60 to 65. It should be noted that an auditor [being a licensed public accountant – see Section 1(1) of the Act] is not required for a property with less than twenty-five units provided all of the owners consent in writing. A condominium corporation is governed by its declaration, bylaws and rules as well as the Act. A review of these documents is considered necessary, as additional duties and rights may be indicated, and in any case should provide some of the general knowledge needed in performing the audit. Should there be any inconsistencies, the Act provides the order of precedence:

- the Act
- declaration
- bylaws
- rules.

Compliance with generally accepted auditing standards

The auditor of a condominium corporation must comply with the requirements of the Act under which he or she was appointed, and needs to be aware of them. The Act also provides for various rights regarding the accumulation of information in support of his or her opinion, but does not have specific procedures for the conduct of the audit.

Chartered accountants in Ontario, when expressing an opinion on financial statements, are bound through their rules of conduct to comply with the generally accepted auditing standards of the profession, as set out in the CICA Handbook.

Auditor's report

The auditor must include a statement in the auditor's report in instances where the information in the financial statements does not fairly present the information in the reserve fund study. In addition, the auditor is required to report any contraventions of Section 67(4) and (5). For example, disclosure should be made of any instances where reserve funds are used for general operations.

Budget information

At present, auditors are not expected to report on budget figures that may be included for information purposes in the financial statements presented to condominium owners. The auditor should ensure that such information is marked as ‘unaudited’.

Possible reference to adequacy of reserve for major repairs and replacements

The directors of a condominium corporation are required by the Act to establish and maintain a reserve for major repairs and replacements. The amounts provided are based on estimates as to the timing and costs of expenditures to be made in the future and therefore involve a degree of uncertainty which in most circumstances would preclude the auditor from providing any opinion as to its adequacy to meet the uses intended.

Normal audit procedures can be applied to give the auditor assurance as to the existence and proper use of the assets (such as cash or term deposits) which represent the reserve shown on the balance sheet. There is some danger however, that the reader of the financial statements might, without adequate disclosure, assume that the auditor had some responsibility in determining whether sufficient assets were being accumulated in the fund to maintain the common elements at their original service level and that a proper matching of costs with usage and ownership was being achieved.

The task force concluded that the auditor should be satisfied that the financial statements adequately disclose the information related to the reserve fund for major repairs and replacements, including who performed the necessary calculations, when, on what basis, and how funding is being provided. The reader should know whether or not a study has been made, whether the board made its own assessment, or, whether an outsider with experience and credentials reported on the sufficiency of the funds being set aside for major repair and replacement of common elements. The fact that the calculation is based on estimates should be clearly disclosed.

Provided the statements give the necessary reserve fund information, the auditor need not make any reference to the reserve fund in his or her audit report. However, inadequate disclosure would have to be considered as a failure to comply with the financial reporting requirements of the Act and with generally accepted accounting principles. Accordingly, a reservation in the opinion would result. In considering the adequacy of disclosure, the auditor should refer to Sections 3290 of the CICA Handbook, on the subject of contingencies.

The task force recommends that the auditor should make clear to the board its responsibilities with respect to establishing adequate reserves and to report properly thereon to the owners through the financial statements. The board should be aware that the auditor does not report on the fund's adequacy, but he or she must be satisfied that the owners are receiving full and fair disclosure of the situation.

Engagement letter

It is recommended that a formal engagement letter be obtained which clearly defines the nature and extent of the engagement. This should reduce the possibility of future misunderstandings. Many auditors include a phrase in such letters to the effect that its provisions will remain in effect for future audits unless notification is given or received. A new letter should be obtained:

- if significant change occurs in the terms of the engagement; or
- on a periodic basis in accordance with the auditor's normal firm policy (often every three years).

The engagement letter should contain reference to the following:

- the board's responsibility for the financial statements;
- an explanation as to the board's responsibility for establishing an adequate reserve for major repairs and replacements, and that the auditor's opinion does not extend to its adequacy;
- any anticipated problems which could result in a reservation in the opinion;
- limitations of the auditor's responsibility for the discovery of fraud and error;
- the nature of any specific work to be performed outside the scope of the normal engagement (e.g. bookkeeping, tax returns, budget advice);
- the requirement for receipt of a representation letter signed by persons providing significant audit information; and
- reference to the fee structure and payment arrangements.

Some auditors also include a requirement to review printers' proofs of any statements and related material which are to be published and which contain an auditor's report.

Letter of representation

The desirability of obtaining a letter setting out the representations of those responsible for maintaining the records and preparing the financial statements has been widely discussed in literature and is well known to the accounting profession. Although the receipt of such a letter does not relieve the auditor of his or her responsibilities, its signing reminds the condominium's board of directors of its responsibility for the financial statements and accounting policies.

The board of directors is responsible for the governance of the corporation and may delegate day-to-day management to a management company. Financial reporting is the responsibility of the board of directors, but they in turn may assign part of the responsibility for financial statement preparation to officers and outside management companies. The review of a properly prepared letter of representations provides these parties with the opportunity for questions and to reflect on the events of the accounting period which may require disclosure.

Should the auditor be unable to obtain a satisfactory representation letter, he or she will have to evaluate carefully the reasons and determine whether he or she has sufficient other evidence to support an unqualified opinion.

Audit committee

The use of audit committees by various organizations is a development welcomed by their directors, owners or members, government regulators and the accounting profession. An effective audit committee can meet the following needs:

1. increase confidence in the objectivity and credibility of financial reports;
2. help the directors meet their financial reporting responsibilities; and
3. maintain the auditor's position of independence by providing him with a means to communicate with directors not actively managing the organization.

The audit committee could be particularly useful for larger condominiums, where there are often outside management companies involved in the day-to-day operations of the corporation and which prepare the financial statements. It is the directors' responsibility to approve and present to the owners financial statements prepared in accordance with generally accepted accounting principles. The discharge of this duty could be greatly facilitated by the use of an audit committee.

Section 68 of the Act permits boards of directors with more than six members to elect an audit committee. The auditor is required to present the auditor's report to the audit committee for its review and submission to the board. The auditor has the right to appear at any meeting of the audit committee, and indeed can cause the convening of a meeting to consider matters he believes should be brought to the attention of the audit committee and/or the board of directors. At the same time, the committee can require the attendance of the auditor at any meeting.

Typically, the duties of an audit committee would include a review of the audit plan, the auditor's evaluation of internal control, the results of the audit and the annual financial statements. Other duties could include the nomination of the auditor and discussion of his or her fees with him or her. The actual duties will vary from corporation to corporation: for maximum effectiveness, the board of directors should approve the committee's objectives and specific responsibilities. Where there is no audit committee, the board of directors itself should perform these duties.

Appendix A

Sample Financial Statements

Ontario Condominium Corporation No. XX

Financial Statements
For the year ended July 31, 20x1

AUDITOR'S REPORT

To the Owners of
Ontario Condominium Corporation No. XX

I have audited the statement of financial position of Ontario Condominium Corporation No. XX as at July 31, 20x1, and the statements of general fund operations and fund balance, reserve fund operations and fund balance, capital asset fund operations and fund balance and cash flows for the year then ended. These financial statements are the responsibility of the corporation's board of directors. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at July 31, 20x1 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

(signed) ....

CHARTERED ACCOUNTANT

City

Date

Ontario Condominium Corporation No. XX
Statement of Financial Position

July 31		20x1		20x0
Assets				
Current				
Cash - general fund	$	**124,200**	$	179,400
- reserve fund		**240,800**		100,600
Reserve fund investments (Note 3)		**150,000**		175,000
Accounts receivable		**6,000**		3,300
Prepaid expenses		**2,000**		1,800
		523,000		460,100
Capital assets (Note 4)		**300,000**		-
	$	**823,000**	$	460,100
Liabilities and Fund Balances				
Current				
Accounts payable	$	**100,800**	$	97,000
Current portion of long-term debt		**10,600**		-
		111,400		97,000
Long-term debt (Note 5)		**229,400**		-
		340,800		97,000
Fund balances				
Reserve fund (Note 7)		**388,000**		275,600
Capital asset fund		**60,000**		-
General fund		**34,200**		87,500
		482,200		363,100
	$	**823,000**	$	460,100

On behalf of the Board:

_______________________ Director

_______________________ Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Condominium Corporation No. XX
Statement of Financial Position
(Optional Columnar Format)

July 31	General Fund	Reserve Fund (Note 7)	Capital Asset Fund	Total 20x1	Total 20x0
Assets					
Current					
Cash	$ 124,200	$ 240,800	$ -	$ 365,000	$ 280,000
Investments (Note 3)	-	150,000	-	150,000	175,000
Accounts receivable	6,000	-	-	6,000	3,300
Prepaid expenses	2,000	-	-	2,000	1,800
	132,200	390,800	-	523,000	460,100
Capital assets (Note 4)	-	-	300,000	300,000	-
	$ 132,200	$ 390,800	$ 300,000	$ 823,000	$ 460,100
Liabilities and Fund Balances					
Current					
Accounts payable	$ 98,000	$ 2,800	$ -	$ 100,800	$ 97,000
Current portion of long-term debt	-	-	10,600	10,600	-
	98,000	2,800	10,600	111,400	97,000
Long-term debt (Note 5)	-	-	229,400	229,400	-
	98,000	2,800	240,000	340,800	97,000
Fund balances	34,200	388,000	60,000	482,200	363,100
	$ 132,200	$ 390,800	$ 300,000	$ 823,000	$ 460,100

On behalf of the Board:

____________________ Director

____________________ Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Condominium Corporation No. XX
Statement of General Fund Operations and Fund Balance

For the year ended July 31	Budget	20x1	20x0
	(Note 13)		
Revenue			
Owners' contribution	$ 791,700	**$ 791,700**	$ 701,700
Less: Contribution to the reserve fund	(70,700)	**(70,700)**	(70,700)
Reserve fund special assessment (Note 6)	(10,000)	**(10,000)**	-
Contribution to the capital asset fund	(75,000)	**(75,000)**	-
Owners' contribution to the general fund	636,000	**636,000**	631,000
Interest	5,300	**5,600**	4,800
Other revenue	-	**2,200**	1,900
	641,300	**643,800**	637,700
Common expenses			
General and administration	29,800	**24,000**	13,500
General repairs and maintenance	42,400	**38,100**	61,600
Insurance	11,500	**10,400**	10,800
Management fee (Note 10)	97,600	**97,600**	97,600
Salaries and benefits	194,400	**191,600**	193,400
Supplies	17,100	**14,200**	22,700
Utilities	248,500	**236,200**	232,500
	641,300	**612,100**	632,100
Excess of revenue over expenses for the year	$ -	**31,700**	5,600
Fund balance, beginning of year		**87,500**	81,900
		119,200	87,500
Special transfer to the reserve fund (Note 8)		**(85,000)**	-
Fund balance, end of year		**$ 34,200**	$ 87,500

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Condominium Corporation No. XX
Statement of Reserve Fund Operations and Fund Balance

For the year ended July 31	20x1	20x0
Revenue		
Owners' contribution to the reserve fund (Note 7)	**$ 70,700**	$ 70,700
Special assessment (Note 6)	**10,000**	-
Interest	**12,500**	10,600
	93,200	81,300
Major repairs and replacements (Note 7)		
Carpet	**14,200**	3,000
Cooling tower	**8,200**	12,000
Retaining wall (Note 9)	**11,500**	-
Heating and air conditioning	**-**	10,800
Roof anchors	**13,000**	134,300
Interior walls	**18,900**	4,800
	65,800	164,900
Excess (deficiency) of revenue over expenses for the year	**27,400**	(83,600)
Fund balance, beginning of year	**275,600**	359,200
Special transfer from the general fund (Note 8)	**85,000**	-
Fund balance, end of year	**$ 388,000**	$ 275,600

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Condominium Corporation No. XX
Statement of Capital Asset Fund Operations and Fund Balance

For the year ended July 31	20x1	20x0
Revenue		
Owners' contribution to the capital asset fund	$ 75,000	$ -
Expense		
Mortgage interest	15,000	-
	15,000	-
Excess of revenue over expenses for the year and fund balance, end of year	$ 60,000	$ -

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Condominium Corporation No. XX
Statement of Cash Flows

For the year ended July 31		20x1		20x0
Cash flows from operating activities				
Owners' contribution for:				
General operations	**$**	**636,000**	$	631,000
Reserve fund		**70,700**		70,700
Special assessment		**10,000**		-
Other receipts		**20,300**		17,300
Common expenses		**(612,100)**		(632,100)
Major repairs and replacements		**(65,800)**		(164,900)
		59,100		(78,000)
Change in other non-cash operating accounts		**900**		(4,100)
		60,000		(82,100)
Cash flows from investing activities				
Purchase of capital assets		**(50,000)**		-
Decrease in investments		**25,000**		5,000
		(25,000)		5,000
Cash flows from financing activities				
Owners' contribution to the capital asset fund		**75,000**		-
Mortgage principal paid		**(10,000)**		-
Mortgage interest paid		**(15,000)**		-
		50,000		-
Increase (decrease) in cash during the year		**85,000**		(77,100)
Cash, beginning of year		**280,000**		357,100
Cash, end of year	**$**	**365,000**	$	280,000
Comprised of:				
General Fund	**$**	**124,200**		179,400
Reserve Fund		**240,800**		100,600
	$	**365,000**	$	280,000

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Condominium Corporation No. XX
Statement of Cash Flows
(Optional Columnar Format)

For the year ended July 31	General Fund 20x1	General Fund 20x0	Reserve Fund 20x1	Reserve Fund 20x0	Capital Asset Fund 20x1	Capital Asset Fund 20x0
Cash flows operating activities						
Owners' contributions for:						
General operations	**$ 636,000**	$ 631,000	**$ -**	$ -	**$ -**	$ -
Reserve fund	**-**	-	**70,700**	70,700	**-**	-
Special assessment	**-**	-	**10,000**	-	**-**	-
Other receipts	**7,800**	6,700	**12,500**	10,600	**-**	-
Common expenses	**(612,100)**	(632,100)	**-**	-	**-**	-
Major repairs and replacements	**-**	-	**(65,800)**	(164,900)	**-**	-
	31,700	5,600	**27,400**	(83,600)	**-**	-
Change in other non-cash operating accounts	**(1,900)**	(4,100)	**2,800**	-	**-**	-
	29,800	1,500	**30,200**	(83,600)	**-**	-
Cash flows from investing activities						
Purchase of capital assets	**-**	-	-	-	**(300,000)**	-
Decrease in investments	**-**	-	**25,000**	5,000	**-**	-
Special transfer to the reserve fund	**(85,000)**	-	**85,000**	-	**-**	-
	(85,000)	-	**110,000**	5,000	**(300,000)**	-
Cash flows from financing activities						
Mortgage proceeds					**250,000**	
Owners' contribution for capital asset fund	**-**	-	**-**	-	**75,000**	-
Mortgage principal paid	**-**	-	**-**	-	**(10,000)**	-
Mortgage interest paid	**-**	-	**-**	-	**(15,000)**	-
	-	-	**-**	-	**300,000**	-
Increase (decrease) in cash during the year	**(55,200)**	1,500	**140,200**	(78,600)	**-**	-
Cash, beginning of year	**179,400**	177,900	**100,600**	179,200	**-**	-
Cash, end of year	**$ 124,200**	$ 179,400	**$ 240,800**	$ 100,600	**$ -**	$ -

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

July 31, 20x1

1. Purpose of the Organization

The Ontario Condominium Corporation No. XX (the "Corporation") was registered without share capital on May 17, 19x7 under the laws of the Condominium Act of Ontario, the "Act". The Corporation was formed to manage and maintain, on behalf of the owners, the common elements of 160 residential units commonly known as CondoVilla, located in the City of Ottawa. For Canadian income tax purposes the Corporation qualifies as a not-for-profit organization which is exempt from income tax under the Income Tax Act.

2. Summary of Significant Accounting Policies

(a) Fund Accounting
The corporation follows the restricted fund method of accounting for contributions.

The general fund reports the contributions from owners and expenses related to the operations and administration of the common elements.

The reserve fund reports the contributions from owners and expenditures for major repair and replacement costs of the common elements and assets. The basis for determining the reserve fund's requirements is explained in Note 7. Only major repairs and replacements of the common elements are charged directly to this reserve fund with the exception of the cost of the reserve fund study which may be charged to the reserve fund. Minor repairs and replacements are charged to repairs and maintenance of the general fund. The Corporation segregates amounts accumulated for the purpose of financing future charges to the reserve fund in special accounts, for use only to finance such charges. Interest earned on these amounts is credited directly to the reserve fund.

The capital asset fund reports the assets, liabilities, revenues and expenses related to the Corporation's capital assets.

(b) Capital Assets
The purchased superintendent's unit is stated at cost. The estimated recoverable amount is not expected to be less than the carrying amount, therefore no provision has been made for amortization.

(Comment: - In those circumstances where the estimated recoverable amount of an owned unit is expected to be less than the carrying amount, a provision for amortization should be made.
The following alternative policy note may be appropriate:-
The Board of Directors reviews the carrying amount of the superintendent's unit for impairment whenever events or changes in circumstances indicate that the carrying amount of the unit may not be recoverable and, if deemed impaired, measurement and recording of an impairment loss is based on the fair value of the unit.)

(c) Use of Estimates
The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

July 31, 20x1

3. Reserve Fund Investments

	20x1	20x0
Term deposits	**$ 65,000**	$ 84,000
Treasury bills	**85,000**	91,000
	$ 150,000	$ 175,000

Investments are comprised of government debt securities maturing on November 30, 20x1 earning interest at rates of 3% to 4% (20X0 - 3.5% to 5.5%). Interest is paid on a semi-annual basis.

4. Capital Assets

	20x1	20x0
	Cost	Cost
Superintendent's suite	**$ 300,000**	$ -

During the year, the Corporation acquired one of the CondoVilla units as a superintendent's suite at a cost of $300,000, of which $250,000 was financed by long-term debt.

As described in Note 2(b), no provision has been made for amortization since the estimated recoverable amount is not expected to be less than the carrying amount.

5. Long - term Debt

Mortgage payable, 6%, secured by the superintendent's suite, due July 31, 20x6, repayable in installments totaling $25,000 annually, principal and interest combined.

Principal payments required over the next five years are as follows:

2002	$ 10,600
2003	11,236
2004	11,910
2005	12,625
2006	193,629
	$ 240,000

6. Special Assessment

During the year the directors approved the purchase of a security system, to be completed in the fall of 20x2. The cost of the new security system will be financed by way of special assessments of $10,000 in 20x1 and $15,000 in 20x2.

7. Reserve Fund

The Corporation, as required by the Condominium Act, 1998, has established a reserve fund for financing future major repairs and replacements of the common elements and assets.

The directors have used the comprehensive reserve fund study of Engineers Ltd. dated August 25, 19x9 (updated with a site visit on July 15, 20x1) and such other information as was available to them in evaluating the adequacy of annual contributions to the reserve fund for major repairs and maintenance. The corporation's plan for contribution to the reserve fund for 20x1 was $70,700 and the plan for expenditures from the reserve fund for 20x1 was $67,700. The study projected a reserve fund balance on July 31, 20x1 of $388,000.

The reserve is evaluated on the basis of expected repair and replacement costs and life expectancy of the common elements and assets of the Corporation. Such evaluation is based on numerous assumptions as to future events.

8. Interfund Transfers

During the year, the directors approved the transfer of $85,000 from the general fund to the reserve fund in order to bring the reserve fund to the amount recommended by the reserve fund study.

9. Commitments

Prior to the year end the Corporation entered into an agreement with a contractor for the repair of the retaining wall for a fixed price of $75,000. At the year-end, the completed portion of $11,500 has been billed and charged to the reserve fund. The remaining cost will similarly be charged to the reserve fund in the subsequent year.

10. Related Party Transactions

During the year the Corporation paid management fees to a company owned by an immediate family member of a director. The transaction was in the normal course of business and was measured at the exchange amount.

11. Remuneration of Directors and Officers

No remuneration was paid to Directors and Officers during the year.

12. Financial Instruments

Unless otherwise noted, it is the board's opinion that the Corporation is not exposed to significant interest rate, currency or credit risks arising from its financial instruments.

13. Budget Information

The budget figures presented for comparison purposes are unaudited and are those approved by the directors on June 14, 20x0. They have been reclassified to conform with the financial statement presentation.

Appendix B

SPECIAL CONSIDERATIONS FOR AN AUDITOR
OF A CONDOMINIUM CORPORATION

NOTE: This checklist includes those issues considered unique to the audit of a condominium corporation. While not required, the use of standardized checklists, such as those appearing in the *Professional Engagement Manual* published by the CICA, is **strongly recommended** to ensure that all other auditing issues are addressed. The references to checklists below are designed to highlight those areas considered particularly important; if the auditor chooses not to use checklists, care should be taken to otherwise provide sufficient audit documentation.

Client________________
Year ended_____________

	Yes/ No/ N/A	Comments (“No” answers require an explanation)	Initials	WP page no.
PLANNING				
1. Has an engagement letter been obtained?				
2. Have audit planning checklists been completed (including documentation of an understanding of internal control, materiality and audit risk assessment and analysis)?				
COMMON EXPENSES				
1. Were common expense assessments and revenues:				
(a) reconciled to the budget?				
(b) assessed to the owners in the proportions specified in the declaration?				
2. In assessing the realizable value of common expenses receivable, are amounts over 90 days supported by liens with proper notification to every encumbrancer?				
3. Was no part of the common surplus directly distributed to the owners or mortgagees?				
RESERVE FUND				
1. Was all income earned from reserve fund assets retained in the fund?				
2. Has the corporation established a separate bank account for its reserve fund account in accordance with section 115(2) of the Condominium Act.				
3. Were reserve fund assets: (a) used exclusively for the purposes for which the fund was established? (b) sufficient to fund the reserve at year end?				
4. Is there adequate disclosure in the financial statements?				
5. Were reserve fund assessments:				
(a) calculated based on the board's plan for the future funding of the reserve fund?,				
(b) sufficient to provide adequate assets to meet budgeted expenditures?				

6. Has the corporation clearly defined items constituting major repairs and replacements and consistently followed such definitions in allocating costs between operating and reserve funds?				
7. Has the most recent reserve fund study and the board's proposed plan for funding been obtained and the recommended reserve contribution and expenditures been compared to the actual?				
8. Do the financial statements appropriately disclose the information required by Regulation 16(3) with respect to the funding and expenditures of the reserve fund?				
INSURANCE				
1. Did the corporation maintain the statutorily required :				
(a) insurance against major perils to the units and common elements ? (section 99)				
(b) liability insurance? (section 102)				
INCOME AND OTHER TAXES				
1. Has there been consideration of the potential tax implications of: (a) T2 – federal return (b) the federal NPO form T1044? 2. Has enquiry been made as to how sales and other taxes are determined and recorded?				
OVERALL CONSIDERATIONS				
1. Has the effect on the corporation's financial statements been considered for:				
(a) its declarations, bylaws and rules?				
(b) the most recent status certificate?				
(c) the Condominium Act and any deviations from the requirements of the act?				
2. (a) Has the aggregate remuneration of directors and officers been disclosed in the financial statements?				
(b) Has directors' remuneration been supported by a bylaw under subsection 56(2) that specifies the period for which it is to be paid?				
3. Have minutes of directors' meetings and any property manager's reports been read?				
4. Have appropriately tailored checklists been completed for transactions and balances?				
5. Have checklists been completed for related party transactions, contractual obligations, contingencies, commitments and subsequent events?				
6. Has a letter of representation been obtained from:				
(a) the client?				
(b) the management company?				

7. If the financial statements cover the first year of operations, has the effect, if any, of the declarant’s liability under Section 75 been provided for?				
8 Have the financial statements been:				
(a) presented to the audit committee or Board for their review?				
(b) approved by the Board?				

Prepared by ______________________ Reviewed by ________________________

Date ____________________________ **Date _______________________________**

Checklists are available in the Professional Engagement Manual published by the CICA or in the Audit Technique Study *Audit of a Small Business*

Appendix C

SAMPLE LETTER OF ENGAGEMENT

(Date)

Ontario Condominium Corporation No. XX
123 Main Street
Ottawa, Ontario

Dear Members of the Board:

This letter is to confirm the terms of my engagement as auditor to avoid misunderstandings about the scope of my work and to serve as a contractual agreement between us. The terms of this agreement will remain in effect for future periods until amended or terminated by either party by written notice. The services that I will continue to provide annually, commencing with the fiscal year ending July 31, 20x1, are as follows:

I will conduct an examination of the financial statements of your corporation in accordance with the Condominium Act, 1998 an in accordance with Canadian generally accepted auditing standards as prescribed by the Canadian Institute of Chartered Accountants. My “Auditor’s Report” addressed to the owners will normally be in substantially the following form:

> I have audited the statement of financial position of Ontario Condominium Corporation No XX as at July 31, 20x1, and the statements of general fund operations and fund balance, reserve fund operations and fund balance, capital asset fund operations and fund balance and cash flows for the year then ended. These financial statements are the responsibility of the corporation’s board of directors. My responsibility is to express an opinion on these financial statements based on my audit.
>
> I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
>
> In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at July 31, 20x1 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

My examination will include a review of the system of internal control and tests of transactions to the extent I believe necessary, but not necessarily a detailed examination of all transactions. It must be understood that although defalcation or other irregularities may be discovered, my examination is not primarily or specifically designed, and cannot be relied upon, to disclose such problems. Furthermore, it must be understood that the statutory audit does not attempt to assess the adequacy of the corporation’s reserve fund.

In addition to an oral review of the audit with the board of directors, it is contemplated that I will provide written comments if any of the following come to my attention and appear to be materially significant:

a) Accounting practices which, in my opinion, are not generally acceptable;
b) Inadequacies in your system of internal control which I believe could be improved;
c) Indication during the course of my audit that the detailed accounting functions are not being performed properly.

The above services will be performed at my regular hourly rates and my account will be submitted upon completion of the engagement. If, during the course of my audit, problems are encountered which will significantly increase the time estimated for my work, the matter will be discussed with you at the time of the field work.

It is expected that the records will be completed and balanced before the commencement of my work and your staff will perform the preparation of certain trial balances and schedules. The maintenance of adequate accounting records is the responsibility of your staff and statements or schedules relating thereto are the representations of management.

It is my function to conduct an examination of the financial statements although, in fact, I may assist in the preparation of the statements as well as conducting the audit of them. My examination is not intended to ensure that particular figures are accurate, but rather that the financial statements present fairly the position of the corporation taken as a whole.

If you agree with my understanding of the terms and conditions of the engagement, please sign both copies of this letter at the bottom of the page and return one copy to me as soon as possible.

Yours truly,

Chartered Accountant

The above terms and conditions are hereby agreed to:

ONTARIO CONDOMINIUM CORPORATION NO. XX

Per: _______________________________________

Appendix D

SAMPLE LETTER OF REPRESENTATION – AUDIT OF A CONDOMINIUM CORPORATION

[CLIENT LETTERHEAD]

[Date (same date as Auditor's Report)]

CA & Co
Chartered Accountants
City, Canada

Dear Sir(s):

In connection with your audit of the financial statements of [client name] for the [period] ended, we hereby confirm that to the best of our knowledge and belief:

1. We are responsible for the fair presentation of the financial statements of the organization prepared in accordance with Canadian generally accepted accounting principles. [Where generally accepted accounting principles have not been followed or have not been applied on a consistent basis, details on the exception(s) should be noted here.]

2. We understand that your audit was performed in accordance with Canadian generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances for the purpose of expressing an opinion on the financial statements. We also understand that such an audit would not necessarily disclose irregularities, should there by any.

3. We have made available to you all:
   - financial records and related data
   - minutes of the meetings of Board of Directors

4. The financial statements of the organization:
   (a) present on a fair and consistent basis all assets and all known liabilities of the organization at the period end;
   (b) properly disclose the nature and amount of any restrictions on funds;
   (c) fairly reflect and summarize on a consistent basis the results of all transactions entered into by the organization during the period;
   (d) segregate where required all transactions between the organization and its directors and members and/or other organizations under common management. There have been no exchange of goods or services with any related parties for which appropriate accounting treatment and financial statement disclosure has not been given.
   (e) record only those assets to which the organization has title and reflect only those transactions properly related to the activities of the organization.

5. All assets, wherever located, to which the organization had satisfactory title at the period end, have been fairly stated and recorded in the financial statements.

6. Accounts receivable represent bona fide claims against owners for fees or other charges arising on or before the period end. The total of accounts receivable written off during the period is hereby approved and, in our opinion, the allowance for doubtful accounts is adequate to cover all known or anticipated losses from uncollectible accounts and those accounts not paid within normal credit terms.

7. We are aware of the environmental laws and regulations that impact on our organization and we are in compliance. There are no known environmental liabilities that have not been accrued for or disclosed in the financial statements.

8. The estimated useful lives of capital assets, as disclosed in the financial statements, are a reasonable basis for amortization. Appropriate provisions have been made for idle or obsolete assets.

9. We are not aware of any illegal or possibly illegal acts for which we have not disclosed to you all facts related thereto.

10. We have disclosed to you all significant owners and/or suppliers of the organization who individually represent a significant volume of transactions with our organization. We are of the opinion that the volume of transactions (sales, services, purchases, borrowing and lending) done by the organization with any one party is not of sufficient magnitude that discontinuance would have a material negative effect on the ongoing operations of the organization.

11. There were no direct or contingent liabilities, unusual contractual obligations nor any substantial commitments, other than in the ordinary course of operations, which would materially affect the financial statements or financial position of the organization, except as disclosed in the financial statements.

12. We have disclosed to you the latest comprehensive reserve fund study and we have provided you with our reserve fund plan.

13. There are no outstanding legal actions or possible claims which have not been provided for or disclosed in the financial statements.

14. The minute books of the organization are a complete record of all meetings of the Board of Directors held during the period and to the present date.

15. There have been no irregularities involving members or employees who have significant roles in the system of internal control.

16. There have been no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

17. No events or transactions other than those disclosed in the financial statements have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

Yours truly,

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Signature

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Signature